Frontier Housing: Replacement Housing with "Manufactured Housing Done Right"™

A Case Study of a scalable replacement program for substandard housing, particularly pre-1976 manufactured housing, developed by Frontier Housing, a member of the NeighborWorks® Network based in Morehead, Kentucky.

NeighborWorks® America actively supports the mission of Frontier Housing and, through its *Innovations in Factory Built Housing* program, has provided capital grants in support of Frontier's replacement program.

Written by Anne B. Gass

NeighborWorks® AMERICA

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One hot summer day Phyllis Kelly sat in her 660 square foot 1970 era mobile home, looking around at the collapsing floor, the holes in the walls, the sagging windows, and the homemade septic system. A small window air conditioner labored to cool the room, but the hot air pushed in through the poor insulation and leaky walls, just as the cold air came in during the winter. It was home for three generations of her family, as Kelly's daughter and granddaughter lived with her as well. It was all they could afford, but it was literally falling apart around them, and something had to happen. She picked up the phone and called Frontier Housing.

Mrs. Kelley meets with Josh Trent, Communities and Design Manager for Frontier Housing.

Frontier Housing is a nonprofit housing organization, and the largest provider of affordable homeownership opportunities in northeastern Kentucky. Founded in 1974, it was chartered as a NeighborWorks® organization in 2006. It has assisted more than 1,000 families, and has steadily grown its production to the point that it helps provide housing solutions to 120 families annually.

Kelly's call to Frontier put a new face on a familiar and growing problem. Stacey Epperson, Frontier's president and CEO, had been searching for strategies to help the thousands of impoverished families in her area who lived in dilapidated housing, most often pre-1976 mobile homes, and who could not afford to replace them with new, site-built housing. No matter how she looked at it the affordability gap between Kelly's low income and a new home was simply too large, even for a modular unit. Unless there was a way to bring costs down still further, Kelly could not afford to replace her home even though she owned her land outright.

Through her research Epperson knew that roughly 2 million families across the country live in mobile homes built before 1976, when the federal Department of Housing and Urban Development (HUD) adopted a new national code establishing safety and structural stability standards for factory built housing. The southeastern United States is known to have a disproportionate number of these homes. Yet most housing providers manage to replace only a relative handful of these units annually, often relying on volunteer labor and deep subsidies to make the units affordable. This approach is time consuming and expensive. There had to be a scaled solution that could address the magnitude of the problem, not just in northeast Kentucky but across the country.

One year Epperson noticed that about 75 families in need of affordable housing purchased manufactured units without any help from Frontier at all. Reluctantly, she began realizing that manufactured housing, even single-section units, had to be part of the solution. Like many other housing professionals, Epperson says, "We [at Frontier] had really despised manufactured housing for years." The conventional wisdom among housing advocates has long been that low-income families are better served by purchasing site-built, stick-built housing. This is because until recently the quality of the housing was better, so units retained their value longer and helped build wealth for their owners. But what if they could design a model that was as at least as well built as the average site-built home?

Epperson spent a year researching manufactured housing companies, and eventually concluded that Clayton Homes in Maryville, Tennessee, offered the best product and was already positioned to serve a national market. Clayton was enthusiastic about partnering with Frontier to develop an affordable product that would meet the guidelines of federal funding and insurance partners.

Their first venture, supported by a CFED I'M HOME grant, tested wealth creation strategies for low- and moderate-income families purchasing multiple-section manufactured units. The project was successful in every way but one. At costs ranging from $90,000- $130,000, the units were still far more expensive than a family living on a low or fixed income could afford.

The solution had to involve a single-section manufactured unit, a product that Clayton was not initially interested in developing. After working unsuccessfully with other housing manufacturers, Epperson again approached Clayton and together they created a model that would meet HUD guidelines. They came up with a unit that is ENERGY STAR® rated, with 2 x 6 inch exterior walls, efficient heating and cooling equipment, a high efficiency water heater, high performance windows, tight construction, and sealed ducts to reduce leaks, drafts, and outdoor noise. It has a composite shingle roof, vinyl siding, and gutters. It is designed to sit on a solid masonry foundation that meets FHA Title II guidelines, and is deeded as real estate.


Kelly's new home

While her situation was desperate, Kelly had some assets that made it possible for her to afford a reasonably priced replacement home. First, she owned her land, and while steep slopes made most of it unsuitable for housing, there was a quarter acre level enough for the unit and for a brand new septic system.

In addition, in her old home she had been paying electric bills as high as $500- $600 in the winter months. Purchasing a brand new, efficient unit would lower her electric bills substantially and allow her to divert that money to a mortgage payment. In fact, her total utility payments in her new home total only about $75, so low that the electric company suspected that she no longer lived there. An employee who lived nearby actually drove to the house at one point to see whether it was still occupied, and was surprised to see that Kelly was living in a brand new manufactured unit.

Frontier helped Kelly obtain a USDA Rural Development 502 Direct Mortgage, as well as some additional subsidy from the Appalachian Regional Commission & USDA Housing Preservation Grants. The final financing package was as follows:

Use	Monthly Payment	Terms	Source
First Mortgage	$303 (PITI)	$60,000 @ 1% interest/30 yrs.	USDA Rural Development, 502 Direct
Second Mortgage	None	$3,000 @ 0% interest/deferred, due on sale	Appalachian Regional Commission
Subsidy	None	Grant – $9,221	USDA Housing Preservation Grant (Frontier Housing)

Kelly is now living in her dream home, but thousands of other families in northeast Kentucky are not so fortunate. Carol Sue Fraley, CEO of Grayson Rural Electric Company, which provides electrical service to Kelly, estimates that as many as 30 percent (4,415) of the company's 14,720 residential customers live in units built before 1976. The need to get to scale becomes more urgent with each passing year, as those units continue to deteriorate and housing subsidies needed to create affordable alternatives become harder to find. Fraley has had discussions with Frontier to see whether other customers struggling to pay high utility bills in older homes could qualify for the type of assistance Kelly received.

Epperson turned to the Federation of Appalachian Housing Enterprises (FAHE) and the Berea Performance Compacts to help expand her initiative throughout Appalachia. FAHE was started in 1980 by socially conscious entrepreneurs who saw that impoverished families in rural areas had limited access to capital for suitable housing solutions. It allowed affordable housing providers within the region to share experiences, form a unified voice, and share access to resources to develop quality housing. In 2005, with the help of renowned organizational performance and learning expert Douglas K. Smith, FAHE set a performance challenge to focus members on finding scalable solutions to the serious problems facing the region. This resulted in the formation of the Berea Performance Compacts in 2007. Participants of the Compacts identify and adopt initiatives and work on them through three phases: pilot, standardization, and roll-out. Manufactured housing is one of several Compacts, with others being multifamily development, mortgage underwriting and servicing, and green building. Frontier Housing is working with the four members of the Compacts' manufactured housing initiative to create a sustainable and scalable model for using single-section manufactured housing units to meet low-income families' new home and replacement housing needs.

Jim King, FAHE's executive director, is excited about the new interest in single-section manufactured housing, though he recognizes that challenges remain. First and foremost is overcoming some housing advocates' longstanding distaste for manufactured housing. This is often based on their experience with the poor quality of many units, not just the older models but even some being manufactured today. Many housing practitioners are reluctant to embrace a paradigm shift to supporting families' choice of manufactured housing, even when it is accompanied by improving access to high quality units such as the Clayton Homes, and to the possibility of more affordable financing through national markets. The Compacts create a safe place to explore and potentially address these issues and others that may arise as project partners engage community, state and national level partners in the placement of well-constructed and fairly financed manufactured homes.

Secondly, the single-section manufactured units have the profile and footprint of the long-stigmatized single-wide mobile home. The fact that they can be built to a much higher quality standard does not alter this basic visual fact. In many communities, overcoming the general public's negative impression of the old single-wide units remains a substantial challenge to scaling up use of single-section manufactured units as an affordable housing solution.

Nevertheless, King is encouraged by the fact that the industry has progressed to discussing business models for bringing use of manufactured housing to scale. "Five years ago", he points out, "we weren't even talking about single-section manufactured housing as a solution. It simply wasn't on the table. To be talking now about appropriate business models is a huge step forward."

There are at least two key differences between the business models for developing new single-section manufactured units and traditional single family homes. The first is that the lower cost of the single-section units allows nonprofit developers to target low income buyers that are typically priced out of the new home market. This represents a new market over and above the customers nonprofits are already serving. The second is that the cycle time is much faster than for site-built, stick built homes, so that it should be possible to produce a higher volume of units.

Frontier and the other members of the Berea Performance Compacts are working through how many units would need to be produced, and at what price point, to generate enough fee income to cover the costs of offering this business line. Part of the answer lies in achieving the high volume needed to keep production costs as low as possible. Another part is having streamlined processes for attracting new customers and helping them become mortgage ready, which may be slightly more challenging with a population that typically has low savings and may have an uneven credit history. There must also be contractors within the service area who have the capacity to site the single-section units properly and perform the required finish work. In some very rural areas this can be a challenge. A typical scenario for the purchase of one single-section manufactured unit is as follows:

Single-Section Manufactured Unit

New ENERGY STAR® Home	$40,000
Footings/Foundation	6,000
Finish work for move-in	7,500
Earth work/Landscape	2,000
Decommission old home	3,000
New sanitary septic	4,500
Total Costs	**$63,000**
Developer Fee (est. 6%):	$3,780

Epperson notes that in her region helping low-income families replace aging mobile homes is the biggest need; she believes that there is strong pent-up demand for this housing product. One potential hurdle is that lower income households often have debt and credit issues that take longer to resolve, adding to the cost of preparing them for a new or replacement home purchase. Attracting a higher volume of low-income borrowers may require stepped up marketing, and possibly some different marketing strategies altogether. These issues can be resolved, but doing so requires the sort of thoughtful exploration in which the members of the Berea Performance Compacts' manufactured housing initiative are currently engaged.

Finally, there is the issue of affordable financing. Epperson and Clayton Homes have managed to create a model unit that is acceptable to both HUD and to Rural Development, which is a huge step in the right direction. FAHE is a Community Development Financial Institution (CDFI) and is working with Epperson to provide affordable financing equivalent to that available for a site-built home. However, the secondary mortgage markets have not yet agreed to treat these high quality manufactured homes the same way they would traditionally built single family units.

Despite these challenges it is clear that Epperson and her colleagues are succeeding in changing attitudes about the role of manufactured housing in solving the acute housing needs of the rural poor. Under the trademarked name Manufactured Housing Done Right™, Frontier Housing is positioning itself to serve as a nonprofit distribution channel for Clayton's affordable, ENERGY STAR® single-section homes. The new venture will serve as an aggregator between local nonprofits and Clayton Homes to secure volume discounts and control standards in the field.

Other outreach and marketing efforts are slowly persuading other affordable housing advocates that manufactured housing can be part of the continuum of affordable housing solutions. H.R. 2454, the American Clean Energy and Security Act of 2009, is legislation wending its way through Congress that would provide $7,500 rebates to help owners of pre-1976 mobile homes purchase new ENERGY STAR® rated homes. If approved, H.R. 2454 could provide as much as $1 billion in funding for this purpose.

There is no question that Kelly, her daughter and granddaughter are much better off living in a new, energy efficient home. Their home is also better for the environment; electrical usage dropped from 6,000 KW/month in the old mobile home to 1,600 KW/month in the new unit. It also has a properly designed septic system. Multiply Kelly by upwards of 2 million owners of old mobile homes and untold numbers of others living in substandard shacks nationwide, and it is clear that this model offers a real opportunity to improve living conditions, reduce energy consumption and protect the environment. Decades of debate have not found a more cost-effective alternative for providing single family homeownership for low-income people living in the vast rural areas of the country. In the meantime, poor people have quietly found their own ways to obtain and site manufactured homes, even if they are older models that do not meet current standards. It is time for the affordable housing industry to follow where the people lead and support them, responsibly, in their housing choice. This is the promise of Manufactured Housing Done Right™.

Lessons Learned

1. As desperate as her housing situation was, Kelly did have some assets that allowed her to replace her crumbling unit. These included the land on which the new unit was sited, and enough income to repay a modest mortgage. This is true of many rural low-income families.

2. The single-section manufactured home Frontier Housing and Clayton Homes designed met funding guidelines for the federal USDA Rural Development 502 Direct loan, as well as for HUD's FHA program. This allowed Kelly to qualify for favorable 1 percent mortgage financing that brought her payments down to a price she could afford.

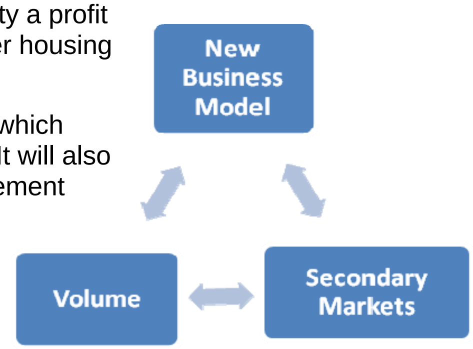
3. The affordable housing industry is gradually accepting that well-built, fairly financed single-section manufactured housing is a desirable housing option, particularly for lower income families living in rural areas. This housing is a cost-effective strategy for replacing pre-1976 units that are unsafe and energy inefficient. The next challenge is to work out a business model that supports delivery of these units at a higher volume that will allow more families to be assisted.

4. In order to bring this initiative to scale progress must be made on several fronts at the same time:

   a) There has to be a **new business model** that makes this activity a profit center in its own right, not simply an occasional add-on to other housing programs.

   b) Keeping housing prices low requires a **high volume** of sales, which means building an efficient distribution system for the homes. It will also require doing a marketing campaign to attract new and replacement home buyers, and to prepare them for purchase.

   c) National **secondary markets** must agree to treat high quality manufactured homes in the same way as traditionally built housing, making financing more affordable.



5. Through the Berea Performance Compacts Epperson has been able to work with other nonprofit housing groups in her region addressing similar populations and problems. This collaborative process has helped refine the model, identify barriers and strengths, and create a framework for bringing it to scale.

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